

MARSHALLTOWN WATER WORKS

**Independent Auditors' Reports
Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2008 and 2007

MARSHALLTOWN WATER WORKS

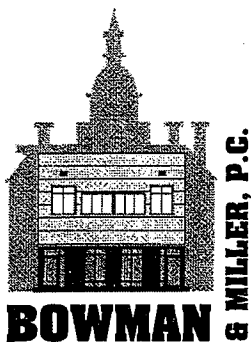
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MARSHALLTOWN WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2012
Jerry Young	Trustee	May 1, 2011
Kenneth Vinson	Trustee	May 1, 2010
Leon Lamer	CEO/General Manager	Indefinite
Steve Sincox	Director of Engineering	Indefinite
Tim Wilson	Director of Water Products	Indefinite
Pat Willey	Director of Finance	Indefinite



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Independent Auditors' Report

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

We have audited the accompanying statements of net assets of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Marshalltown Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the funds of the Marshalltown Water Works and do not present the financial position of the City of Marshalltown, Iowa, as of June 30, 2008 and 2007, and the changes in its financial position and cash flows where applicable and its indebtedness, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2008, on our consideration of the Marshalltown Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in pages 19 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 15, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Marshalltown Water Works' Annual Financial Report presents our discussion of the Water Works' financial performance during the financial year ending June 30, 2008.

Use this discussion in conjunction with the financial report to better understand the Water Works' financial condition, which follows this section.

2008 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- ◆ Operating revenues of the Water Works decreased 1.6%, or approximately \$49,000, from fiscal 2007 to fiscal 2008. Decrease in water usage by industrial customers accounted for approximately \$48,000 of this decrease.
- ◆ Operating expenses of the Water Works increased 3.6%, or approximately \$100,000, in fiscal 2008 from fiscal 2007. Salary and benefits increased approximately \$92,000.
- ◆ The Water Works net assets remained virtually unchanged from fiscal 2007.
- ◆ The Water Works began a research project, with the permission of the Iowa Department of Natural Resources, to evaluate the use of sodium chlorite to control nitrification within the distribution system. The research results were extremely good and we are designing the addition of this chemical to our system. The Marshalltown Water Works will be the only utility in Iowa to use this system and we are now sharing our information with others within the water industry. The Water Works completed the facility to handle this chemical and it became part of our permeate treatment process.
- ◆ The Marshalltown Water Works is maintaining a Capital Reserve Account to finance a new one-million gallon water tower to be constructed in the 2009 fiscal year using the cash release from the bond fund and the Capital Reserve Account.
- ◆ With the announcement of Alliant Energy constructing a new electrical generating facility in Marshalltown and that they will purchase all the water from us, this will require some major expansion of our facilities.
- ◆ We have begun looking at the well field for an additional source of supply.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Water Works' financial activities.

These financial statements consist of statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

Notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Water Work's budget for the year.

Supplemental information provides detailed information about the statements of net assets, expense accounts and debt of the Water Works.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The statements of net assets include all of the Water Works' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net assets regardless of when cash is received or paid.

The statements of net assets report the Water Works' net assets and how they have changed. Net assets (the difference between the Water Works' assets and liabilities) is one way to measure the Water Works' financial health or position. Over time, increases and decreases in the Water Works' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The Water Works is considered a business type activity because it charges fees to customers to cover the costs of all services it provides.

FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE

- ◆ The Water Works' total assets remained consistent over the past twelve months. Cash balances decreased due to the last payment on the revenue bond.
- ◆ Income for the Water Works decreased \$49,146 over 2007 and total expenses increased \$100,401 leaving an operating loss of 7,079. After all non-operating income and expenses were recorded, the Water Works reported net income of \$62,166 for the year ending June 30, 2008.
- ◆ Due to weather conditions, the change in Central Iowa Water Association purchases and the City increasing sewer rates the Water Works' operating revenues were \$2,888,078, and as a result, operating revenue did not meet the projected three percent increase over the fiscal year 2008. Expenses for fiscal year 2008 were at ninety two percent of budgeted numbers making them below the budget approved by the Board of Trustees in March, 2007.

DEBT ADMINISTRATION

- ◆ During the fiscal year 2008, the Marshalltown Water Works made payments against bonded indebtedness of \$365,000. This bond is a ten-year bond and the last payment on this bond was due June, 2008.

CONDITIONS OF THE WATER WORKS INFRASTRUCTURE

- ◆ The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of 2008 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received

complaints on pressure or quality and as those complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.

- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ The Board has hired a consultant to review the location and need for a new tower on the south side of town, as well as the infrastructure for servicing the addition of a new power plant.
- ◆ The Board has hired a consultant to review and make recommendations on the plant expansion and well field expansion to meet the needs of a new power plant.
- ◆ The Utility will begin negotiating a contract with Alliant Energy for water service to their new facility in the spring of 2009.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- ◆ In June 2004, the Water Works Board of Trustees employed Economic and Engineering Services to update the Cost-of-Service Study. Economic and Engineering Services recommended to the Board that the Water Works raise rates to replenish the operative and capital reserves by an additional \$200,000 per year until a minimum of \$500,000 is in the reserve fund. Also they assumed 1.25 rate times the annual depreciation expense for capital project funding from rates which would equal \$700,000 per year. Using these premises, the proposed rates were calculated and a three-year increase was proposed.
- ◆ The Board approved the third year of the proposed rate increase and made it effective on July 1, 2008. These rate increases have accounted for the turnaround in the financial condition of the Marshalltown Water Works.
- ◆ Alliant Energy will be requiring much time and effort to service them in the manner that needs to be addressed to meet the new contract.
- ◆ The Water Works will be constructing a new 16" water main that will be the second feed line for the 5th St. Booster Station.
- ◆ The Water works will be modifying the wells to raise them after this years flooding and to allow for new 100 year flood elevations.
- ◆ The Water Works will be giving the front of the office building a face lift to correct the brick problem.
- ◆ The Water Works will be building a new tower.

CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report, you may contact either Leon Lamer or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

MARSHALLTOWN WATER WORKS

Statements of Net Assets June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash and cash equivalents	\$ 539,787	572,248	(32,461)
Accounts receivable	221,191	267,552	(46,361)
Other receivables	34,263	25,193	9,070
Prepaid expenses	80,850	79,309	1,541
Restricted assets:			
Sinking fund	-	31,633	(31,633)
Total current assets	<u>876,091</u>	<u>975,935</u>	<u>(99,844)</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	1,003,800	351,970	651,830
Restricted assets:			
Improvement fund	-	200,000	(200,000)
Reserve fund	-	350,000	(350,000)
Total investments	<u>1,303,800</u>	<u>1,201,970</u>	<u>101,830</u>
Capital assets:			
Capital assets	21,817,345	21,520,066	297,279
Accumulated depreciation	<u>(10,588,261)</u>	<u>(10,016,150)</u>	<u>(572,111)</u>
Net capital assets	<u>11,229,084</u>	<u>11,503,916</u>	<u>(274,832)</u>
Other assets:			
Bond origination fee	-	1,278	(1,278)
 Total assets	 \$ <u>13,408,975</u>	 <u>13,683,099</u>	 <u>(274,124)</u>

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 68,538	71,261	(2,723)
Due to other governments:			
Landfill fees	11,941	11,345	596
Sewer fees	202,977	191,529	11,448
Storm sewer fees	24,998	24,612	386
Sewer interest	96	216	(120)
Customer deposits - sewer	60,895	62,005	(1,110)
Customer deposits - water	44,995	45,120	(125)
Accrued liabilities	107,427	87,069	20,358
Current portion of long-term debt	-	365,000	(365,000)
Total current liabilities	<u>521,867</u>	<u>858,157</u>	<u>(336,290)</u>
Long-term debt:			
Revenue bonds	-	365,000	(365,000)
Less: current portion	-	(365,000)	365,000
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>521,867</u>	<u>858,157</u>	<u>(336,290)</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	11,229,084	11,138,916	90,168
Restricted for revenue note retirement	-	216,633	(216,633)
Unrestricted:			
Board designated for capital improvements	1,003,800	351,970	651,830
Undesignated	654,224	1,117,423	(463,199)
Total net assets	<u>12,887,108</u>	<u>12,824,942</u>	<u>62,166</u>
 Total liabilities and net assets	 \$ <u>13,408,975</u>	 <u>13,683,099</u>	 <u>(274,124)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,226,261	1,230,285	(4,024)
Multi-family	151,255	170,427	(19,172)
Commercial	357,475	352,292	5,183
Irrigation	46,068	40,695	5,373
Industrial	510,632	558,657	(48,025)
Wholesale	466,797	467,707	(910)
Non-metered	741	1,136	(395)
City contract services	62,236	63,657	(1,421)
Penalties	38,254	26,546	11,708
Customer service	23,379	21,656	1,724
Testing laboratory	4,980	4,166	814
Total operating revenues	<u>2,888,078</u>	<u>2,937,224</u>	<u>(49,146)</u>
Operating expenses:			
Salaries and wages	915,432	849,618	65,814
Payroll taxes and benefits	253,703	227,410	26,293
Utilities	271,856	276,108	(4,252)
Fuels	19,157	17,518	1,639
Supplies	87,979	72,133	15,846
Repairs and maintenance	73,624	51,451	22,173
Chemicals	566,119	575,096	(8,977)
Contract services	13,383	11,468	1,914
Insurance	74,496	77,125	(2,629)
Professional fees	15,349	18,926	(3,577)
Other operating expense	31,947	32,456	(509)
Depreciation	572,112	585,447	(13,335)
Total operating expenses	<u>2,895,157</u>	<u>2,794,756</u>	<u>100,401</u>
Operating income (loss)	<u>(7,079)</u>	<u>142,468</u>	<u>(149,547)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	83,930	91,701	(7,771)
Rentals	500	-	500
Timber sales	-	6,050	(6,050)
Miscellaneous income	8,977	10,694	(1,717)
Interest expense	(14,600)	(28,228)	13,628
Miscellaneous expense	(9,562)	(8,750)	(812)
Total non-operating revenues (expenses)	<u>69,245</u>	<u>71,467</u>	<u>(2,222)</u>
Change in net assets	62,166	213,935	(151,769)
Net assets, beginning	<u>12,824,942</u>	<u>12,611,007</u>	<u>213,935</u>
Net assets, ending	<u>\$ 12,887,108</u>	<u>12,824,942</u>	<u>62,166</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,957,002	2,900,371
Cash payments to suppliers for goods and services	(1,146,667)	(1,150,976)
Cash payments to employees and professional contractors for services	(1,147,931)	(1,102,418)
Net cash provided (used) by operating activities	<u>662,404</u>	<u>646,977</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	1,150,000	1,050,000
Purchase of investments	(1,251,831)	(1,151,068)
Investment income	83,930	91,701
Receipt of rental income	500	-
Other operating revenues (expenses)	(585)	7,993
Net cash provided (used) in investing activities	<u>(17,986)</u>	<u>(1,374)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bonds	(365,000)	(345,000)
Interest paid on revenue bonds	(14,600)	(28,228)
Acquisition of capital assets	(297,279)	(179,916)
Net cash provided (used) by financing activities	<u>(676,879)</u>	<u>(553,144)</u>
Net change in cash and cash equivalents	(32,461)	92,459
Cash and cash equivalents at beginning of year	<u>572,248</u>	<u>479,789</u>
Cash and cash equivalents at end of year	<u>\$ 539,787</u>	<u>572,248</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (7,079)	142,468
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	572,112	585,447
Bond origination fees	1,278	1,567

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued)

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
(Increase) decrease in assets:		
Accounts receivable	46,361	(53,878)
Other receivables	(9,070)	17,025
Prepaid expenses	(1,541)	(13,400)
Sinking fund	31,633	(531)
Increase (decrease) in liabilities:		
Accounts payable	(2,723)	(4,535)
Payable to sewer fund	11,448	(7,677)
Payable to landfill fund	596	(822)
Payable to storm sewer fund	386	(1,608)
Customer deposits-sewer	(1,110)	(1,600)
Customer deposits-water	(125)	(1,570)
Sewer interest	(120)	4
Accrued liabilities	<u>20,358</u>	<u>(13,913)</u>
Net cash provided (used) by operating activities	\$ <u>662,404</u>	<u>646,977</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements June 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria. They account for operations that are financed and operated in a manner similar to a private business enterprise where the expenses (including depreciation) of providing water services to the City of Marshalltown on a continuing basis are financed through user charges.

The financial statements of the Water Works have been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

A. Accounts Receivable

Accounts receivable represent uncollected amounts billed for water usage at June 30, 2008 and 2007. Because of the Organization's policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded.

B. Capital Assets

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest costs are capitalized for the purchase or construction of property, plant and equipment. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Plants, Wells and Storage	10-40 years
Distribution Property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Budgets

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water Works considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

E. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

F. Bond Origination Fee

Bond origination fees are being amortized by the straight-line method over the life of the revenue bonds.

Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2008 and 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2008 and 2007.

Interest rate risk – The Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

Note 2. Cash and Pooled Investments (Continued)

invested with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Water Works.

Note 3. Bonds Payable

Revenue bonds payable at June 30, 2008 and 2007 were \$-0- and \$365,000, respectively.

The resolutions providing for the issuance of the revenue bonds included the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the enterprise activity.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) An amount equal to the maximum amount of principal and interest coming due on the bonds in any subsequent fiscal year shall be transferred to the water revenue debt service reserve fund. This shall be equal to 25% of the sinking fund requirements. This is used for debt service requirements whenever there is insufficient money available in the sinking fund.
- (d) Additional monthly cash transfers of \$10,000 to the improvement account shall be made until a minimum of \$200,000 is attained. This account pays principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget for capital improvements.

No interest was capitalized for 2008 and 2007.

Note 4. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded in the statement of net assets based on current rates of pay.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

Note 5. Pension and Retirement Benefits

The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust. The Water Works' payrolls covered by the Plan for the years ended June 30, 2008, 2007, and 2006 were \$491,042, \$442,044, and \$443,801, respectively, while total payrolls for 2008, 2007 and 2006 were \$879,180, \$836,727 and \$828,304, respectively.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2003. The Board of Trustees has the authority to amend the Plan at any time.

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of their average monthly compensation multiplied by the number of years of consecutive service for the years ended 2008, 2007 and 2006. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service. The Plan also provides death and disability benefits.

The Plan is an actuarially funded system. The pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases. Significant actuarial assumptions used in the determination of the contribution and where applicable, in arriving at the benefit obligation, include an 8% investment return, 5% projected salary increases, retirement at age 65, and mortality based on the 1983 group annuity mortality table.

The pension benefit obligations as of April 1, 2008, 2007 and 2006 were as follows:

	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Vested:			
Active	\$ 315,770	301,148	297,430
Retired	<u>841,157</u>	<u>814,076</u>	<u>840,326</u>
Total vested	1,156,927	1,115,224	1,137,756
Non-vested	<u>770,569</u>	<u>745,021</u>	<u>701,664</u>
Total pension benefit obligations	\$ <u>1,927,496</u>	<u>1,860,245</u>	<u>1,839,420</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2008 and 2007

Note 5. Pension and Retirement Benefits (Continued)

	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Net assets available for benefits at market value	\$ 1,279,541	1,353,974	1,310,753
(cost 2008: \$1,237,710)			
(cost 2007: \$1,273,423)			
(cost 2006: \$1,310,830)			
Prepaid (unfunded) pension	\$ (647,955)	(506,271)	(528,667)

*The last actuarial valuation was performed on April 1, 2007. Estimated values have been calculated as of April 1, 2008 and 2006.

The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The frozen entry age actuarial cost method is used to determine annual plan costs. Contribution percentages for the years ended June 30, 2008, 2007 and 2006 for the employer portion was 6 3/4% and 3 1/4% for employees. Contributions paid by the Water Works for the years ended June 30, 2008, 2007 and 2006 totaled \$34,708, \$31,193 and \$29,456, respectively, and the contributions paid by employees totaled \$19,282, \$15,019 and \$13,365, respectively.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. While ten-year trend information is not available, three-year trend information, for the years ended April 1, is presented as follows:

	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Net assets available for benefits as percentages of the pension benefit obligations	66%	73%	71%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(132%)	(115%)	(119%)
Employer contributions (in accord- ance with actuarially determined requirements) as percentages of covered payroll	6.75%	6.75%	6.75%

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2008 and 2007

Note 5. Pension and Retirement Benefits (Continued)

	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Actuarial value of assets as a percentage of the actuarial accrued liability	64%	69%	67%
Ratio of the unfunded actuarial liability to annual covered payroll	149%	135%	144%
Total unfunded actuarial liability	\$ 731,551	597,006	640,705
Actuarial accrued liability	\$ 2,011,092	1,950,980	1,951,458
Actuarial value of plan assets	\$ 1,279,541	1,353,794	1,310,753

*The last actuarial valuation was performed on April 1, 2007. Estimated values have been calculated as April 1, 2008 and 2006.

For employees who choose not to participate in the Marshalltown Water Works' Supplemental Retirement and Pension Plan, the Water Works contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Water Works is required to contribute 6.05% of covered payroll. Contribution requirements are established by state statute. The Water Works' contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$23,482, \$22,694, and \$22,471, respectively, equal to the required contributions for each year.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

Note 6. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2008 and 2007. There have been no reductions in insurance coverage from prior years.

Note 7. Capital Assets

Capital assets are stated at cost as follows at June 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,113,721	1,113,721
Plant and source of supply	9,072,904	8,884,217
Booster station	161,072	161,072
Distribution system and pipe	8,628,884	8,549,822
Meters	1,279,958	1,268,845
Machinery and equipment	432,302	417,250
Vehicles	231,923	231,923
Capital improvements	54,650	54,650
Capital improvements – buildings	448,576	448,576
Office equipment and furnishings	<u>393,355</u>	<u>389,990</u>
	21,817,345	21,520,066
Less accumulated depreciation	<u>(10,588,261)</u>	<u>(10,016,150)</u>
	\$ <u>11,229,084</u>	<u>11,503,916</u>

Depreciation expense was \$572,112 for the year ended June 30, 2008 and \$585,447 for the year ended June 30, 2007.

Note 8. Concentrations of Credit Risk

Concentrations of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of all the receivables.

Required Supplementary Information

MARSHALLTOWN WATER WORKS

Comparison of Revenues and Expenses - Actual to Budget Required Supplementary Information For the Year Ended June 30, 2008

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ 2,888,078	3,026,166	(138,088)
Miscellaneous	93,407	189,300	(95,893)
Total revenues	<u>2,981,485</u>	<u>3,215,466</u>	<u>(233,981)</u>
Expenditures:			
Business type activities	<u>2,919,319</u>	<u>3,186,895</u>	<u>(267,576)</u>
Increase in net assets	62,166	28,571	33,595
Net assets beginning of year	<u>12,824,942</u>	<u>13,085,734</u>	<u>(260,792)</u>
Net assets end of year	<u>\$ 12,887,108</u>	<u>13,114,305</u>	<u>(227,197)</u>

MARSHALLTOWN WATER WORKS

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2008

In accordance with the Code of Iowa, the Water Works' Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

There were no budget amendments for the Water Works during fiscal 2008.

During the year ended June 30, 2008, expenditures did not exceed the amount budgeted.

Supplementary Information

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	192,776	268,424	(75,648)
Water deposits	44,995	45,120	(125)
Less: sinking fund allocation	-	(31,633)	31,633
	<u>238,401</u>	<u>282,541</u>	<u>(44,140)</u>
Cash held for city:			
Sewer deposit fund	60,991	62,221	(1,230)
Sewer cash	203,326	191,529	11,797
Storm sewer cash	25,128	24,612	516
Landfill cash	11,941	11,345	596
Total cash held for city	<u>301,386</u>	<u>289,707</u>	<u>11,679</u>
Total cash	<u>\$ 539,787</u>	<u>572,248</u>	<u>(32,461)</u>
Capital assets:			
Land	\$ 1,113,721	1,113,721	-
Plant and source of supply	9,072,904	8,884,217	188,687
Accumulated depreciation - plant	(5,884,581)	(5,522,591)	(361,990)
Distribution system and pipe	8,628,884	8,549,822	79,062
Accumulated depreciation - distribution	(2,634,054)	(2,545,118)	(88,936)
Booster station	161,072	161,072	-
Accumulated depreciation-booster station	(60,230)	(57,549)	(2,681)
Meters	1,279,958	1,268,845	11,113
Accumulated depreciation - meters	(875,192)	(839,139)	(36,053)
Machinery and equipment	432,302	417,250	15,052
Accumulated depreciation - machinery and equipment	(319,725)	(296,382)	(23,343)
Vehicles	231,923	231,923	-
Accumulated depreciation - vehicles	(204,780)	(187,524)	(17,256)
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	(19,486)	(18,005)	(1,481)
Capital improvements - buildings	448,576	448,576	-
Accumulated depreciation - buildings	(252,214)	(238,871)	(13,343)
Office equipment and furnishings	393,355	389,990	3,365
Accumulated depreciation - office equipment and furnishings	<u>(337,999)</u>	<u>(310,971)</u>	<u>(27,028)</u>
Net capital assets	<u>\$ 11,229,084</u>	<u>11,503,916</u>	<u>(274,832)</u>

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail (Continued)

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 63,300	63,485	(185)
Prepaid computer maintenance	12,861	12,165	696
Prepaid billing supplies	<u>4,689</u>	<u>3,659</u>	<u>1,030</u>
Total prepaid expenses	<u>\$ 80,850</u>	<u>79,309</u>	<u>1,541</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 22,111	18,668	3,443
Interest receivable	11,643	5,956	5,687
Contract receivables	<u>509</u>	<u>569</u>	<u>(60)</u>
Total other receivables	<u>\$ 34,263</u>	<u>25,193</u>	<u>9,070</u>
Accrued liabilities:			
Accrued sales tax	\$ 6,506	7,352	(846)
Accrued F.I.C.A.	1,754	1,284	470
Accrued payroll	22,930	16,789	6,141
Accrued pension	894	627	267
Accrued vacation	75,136	68,161	6,975
Accrued retirement expense	585	454	131
Insurance deductible	<u>(378)</u>	<u>(7,598)</u>	<u>7,220</u>
Total accrued liabilities	<u>\$ 107,427</u>	<u>87,069</u>	<u>20,358</u>

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ <u>316,726</u>	<u>302,033</u>	<u>14,693</u>
Employee benefits:			
Health insurance	37,902	33,248	4,654
Pension	19,982	19,037	945
Social security	23,269	22,752	517
Life insurance	1,211	1,179	32
Mileage	498	344	154
Registration	1,280	1,390	(110)
Lodging	682	3,910	(3,228)
Safety clothing	677	1,048	(371)
Safety training	2,021	-	2,021
Dues	30	-	30
Food	6	-	6
Travel	10	-	10
Medical	24	-	24
	<u>87,592</u>	<u>82,908</u>	<u>4,684</u>
Utilities:			
Electric	228,650	237,058	(8,408)
Gas	22,002	16,634	5,368
Internet	219	219	-
Telephone	1,369	3,094	(1,725)
	<u>252,240</u>	<u>257,005</u>	<u>(4,765)</u>
Depreciation:			
Plant depreciation	<u>361,989</u>	<u>368,069</u>	<u>(6,080)</u>
Fuels:			
Gas	1,414	1,248	166
Oil	6	22	(16)
Diesel fuel	1,049	970	79
	<u>2,469</u>	<u>2,240</u>	<u>229</u>
Supplies:			
Lab supplies	15,327	14,508	819
Plant supplies	82	1,578	(1,496)
Building supplies	749	142	607
Well supplies	477	352	125

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Cleaning supplies	589	509	80
General supplies	727	434	293
Health and first aid	191	198	(7)
Operational fees and permits	160	-	160
Safety equipment	155	119	36
Meter pit supplies	-	987	(987)
	<u>18,457</u>	<u>18,827</u>	<u>(370)</u>
Maintenance:			
Building maintenance	3,766	2,109	1,657
Machinery maintenance	12,032	9,247	2,785
Computer maintenance	1,033	842	191
Grounds maintenance	2,448	1,565	883
Well field maintenance	5,130	6,164	(1,034)
Heating and air maintenance	174	691	(517)
Safety equipment maintenance	458	-	458
Vehicle maintenance	33	548	(515)
Meter pit repair	-	426	(426)
	<u>25,074</u>	<u>21,592</u>	<u>3,482</u>
Chemicals:			
Pebble-lime	230,798	230,619	179
CO2	17,816	14,104	3,712
CL2	26,407	29,862	(3,455)
Fluoride	15,971	15,946	25
Poly-phosphate	15,348	7,120	8,228
Polymer	-	14,519	(14,519)
Lime sludge removal	254,127	246,756	7,371
Sodium chlorite	5,652	16,170	(10,518)
	<u>566,119</u>	<u>575,096</u>	<u>(8,977)</u>
Contract services:			
Rentals	95	60	35
Lab services	9,254	10,300	(1,046)
Grant	-	(324)	324
	<u>9,349</u>	<u>10,036</u>	<u>(687)</u>
Total treatment plant	<u>\$ 1,640,015</u>	<u>1,637,806</u>	<u>2,209</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ <u>234,437</u>	<u>197,836</u>	<u>36,601</u>
Employee benefits:			
Health insurance	28,696	27,027	1,669
Pension	14,772	11,771	3,001
Social security	17,649	14,792	2,857
Life insurance	842	886	(44)
Registration	390	482	(92)
Mileage	-	31	(31)
Dues	-	220	(220)
Food	46	62	(16)
Lodging	222	246	(24)
Medical	-	1,413	(1,413)
Safety clothing	1,339	1,082	257
Safety training	<u>2,021</u>	<u>-</u>	<u>2,021</u>
	<u>65,977</u>	<u>58,012</u>	<u>7,965</u>
Depreciation:			
Distribution depreciation	88,936	88,868	68
Booster station depreciation	2,681	2,681	-
Vehicle depreciation	1,374	3,292	(1,918)
Equipment depreciation	<u>23,344</u>	<u>22,408</u>	<u>936</u>
	<u>116,335</u>	<u>117,249</u>	<u>(914)</u>
Fuels:			
Gas	4,518	3,644	874
Oil	576	784	(208)
Grease	69	100	(31)
Diesel fuel	6,312	5,821	491
LP gas	<u>15</u>	<u>24</u>	<u>(9)</u>
	<u>11,490</u>	<u>10,373</u>	<u>1,117</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	2,540	9,239	(6,699)
Shop supplies	1,138	1,578	(440)
Leak repair supplies	42,192	21,366	20,826
Hydrant and valve supplies	2,520	2,915	(395)
Booster station supplies	49	25	24
Operational fees and permits	-	9	(9)
Health and first aid supplies	21	-	21
Safety equipment	405	-	405
Data processing supplies	290	20	270
	<u>49,155</u>	<u>35,152</u>	<u>14,003</u>
Maintenance:			
Vehicle maintenance	3,067	419	2,648
Equipment maintenance	4,028	10,694	(6,666)
Computer maintenance	775	625	150
Tower maintenance	186	-	186
Well field maintenance	6,314	2,869	3,445
Booster station maintenance	-	2,733	(2,733)
	<u>14,370</u>	<u>17,340</u>	<u>(2,970)</u>
Total construction and maintenance	\$ <u>491,764</u>	<u>435,962</u>	<u>55,802</u>

MARSHALLTOWN WATER WORKS

Schedules of Customer Service and Meter Expenses For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ <u>102,975</u>	<u>105,126</u>	<u>(2,151)</u>
Employee benefits:			
Health insurance	20,551	12,102	8,449
Pension	6,434	6,396	38
Social security	7,416	7,760	(344)
Life insurance	454	454	-
Dues	-	38	(38)
Safety clothing	1,151	204	947
Safety training	2,021	-	2,021
Medical	76	179	(103)
	<u>38,103</u>	<u>27,133</u>	<u>10,970</u>
Depreciation:			
Vehicle depreciation	15,881	15,886	(5)
Meter depreciation	36,053	37,691	(1,638)
	<u>51,934</u>	<u>53,577</u>	<u>(1,643)</u>
Fuels:			
Gas	5,144	4,817	327
Oil	54	64	(10)
LP gas	-	24	(24)
	<u>5,198</u>	<u>4,905</u>	<u>293</u>
Maintenance:			
Vehicle maintenance	(904)	116	(1,020)
Equipment maintenance	2	534	(532)
Safety equipment maintenance	-	17	(17)
	<u>(902)</u>	<u>667</u>	<u>(1,569)</u>
Supplies:			
General supplies	3,188	2,412	776
Meter repair supplies	934	1,173	(239)
Shop supplies	211	766	(555)
Service repair supplies	240	37	203
	<u>4,573</u>	<u>4,388</u>	<u>185</u>
Total customer service and meter	\$ <u>201,881</u>	<u>195,796</u>	<u>6,085</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ <u>261,294</u>	<u>244,623</u>	<u>16,671</u>
Employee benefits:			
Health insurance	14,209	12,067	2,142
Pension	17,401	16,782	619
Social security	19,393	18,774	619
Life insurance	1,151	1,076	75
Mileage	3,678	4,028	(350)
Safety clothing	-	203	(203)
Registration fees	285	175	110
Dues and subscriptions	4,521	4,954	(433)
Lodging	516	416	100
Food	877	882	(5)
	<u>62,031</u>	<u>59,357</u>	<u>2,674</u>
Utilities:			
Electricity	7,556	8,155	(599)
Gas	5,846	5,216	630
Internet expense	219	220	(1)
Telephone	5,995	5,512	483
	<u>19,616</u>	<u>19,103</u>	<u>513</u>
Depreciation:			
Building depreciation	13,344	15,691	(2,347)
Capital improvement depreciation	1,481	2,467	(986)
Equipment depreciation	27,029	28,394	(1,365)
	<u>41,854</u>	<u>46,552</u>	<u>(4,698)</u>
General supplies:			
Office supplies	5,199	3,116	2,083
Data processing supplies	1,647	3,367	(1,720)
General supplies	3,236	2,155	1,081
Administrative supplies	300	-	300
Building supplies	122	-	122
Cleaning supplies	2	-	2
Operational fees and permits	4,439	4,344	95
Health and first aid	849	784	65
	<u>15,794</u>	<u>13,766</u>	<u>2,028</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	20,389	7,419	12,970
Office machine maintenance	5,777	3,678	2,099
Building maintenance	8,916	755	8,161
	<u>35,082</u>	<u>11,852</u>	<u>23,230</u>
Administrative expenses:			
Insurance	74,496	77,125	(2,629)
Bad debt expense	(32)	(124)	92
Banking services	3,271	3,754	(483)
Legal services	8,449	12,446	(3,997)
Cleaning services	5,715	5,438	277
Accounting services	6,900	6,480	420
Postage	20,066	19,997	69
Public notices	2,927	3,311	(384)
Contract services	1,311	1,432	(121)
Engineering services	2,723	-	2,723
Computer programming	-	80	(80)
	<u>125,826</u>	<u>129,939</u>	<u>(4,113)</u>
Total administrative expenses	<u>\$ 561,497</u>	<u>525,192</u>	<u>36,305</u>
Non-operating expenses:			
Interest expense	\$ 14,600	28,228	(13,628)
Board compensation	675	675	-
Contributions	-	75	(75)
Merchandise for resale	887	-	887
Economic development	8,000	8,000	-
Total non-operating expenses	<u>\$ 24,162</u>	<u>36,978</u>	<u>(12,816)</u>

MARSHALLTOWN WATER WORKS

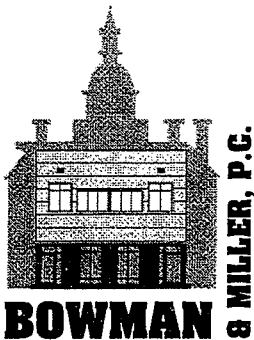
Schedules of Indebtedness

For the Year Ended June 30, 2008

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 365,000
Issued during year	-
Redeemed during year	<u>365,000</u>
Balance, end of year	\$ <u>-</u>
Current portion (due in one year)	\$ <u>-</u>

For the Year Ended June 30, 2007

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 710,000
Issued during year	-
Redeemed during year	<u>345,000</u>
Balance, end of year	\$ <u>365,000</u>
Current portion (due in one year)	\$ <u>365,000</u>



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on
Internal Control over Financial Reporting
and on Compliance and Other Matters Based on Audits
of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Marshalltown Water Works
Marshalltown, Iowa

We have audited the financial statements of the Marshalltown Water Works, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 15, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Marshalltown Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Marshalltown Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marshalltown Water Works' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the Marshalltown Water Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Marshalltown Water Works' financial statements that is more than inconsequential will not be prevented or detected by the Marshalltown Water Works' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2008 and 2007 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Marshalltown Water Works and other parties to whom the Marshalltown Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Marshalltown Water Works during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 15, 2008

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2008 and 2007

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Other Findings Related to Required Statutory Reporting:

- 08-II-A Certified Budget - Expenditures during the years ended June 30, 2008 and 2007, did not exceed the amounts budgeted.
- 08-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 08-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 08-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 08-II-E Bond Coverage - Security bond coverage of Water Works officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 08-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 08-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.
- 08-II-H Revenue Bonds - The Water Works has established the sinking and reserve accounts required by the water revenue bond resolution.

MARSHALLTOWN WATER WORKS

Audit Staff

This report was prepared by:

BOWMAN AND MILLER, P.C.
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Marshalltown, Iowa

Personnel:

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